

28 November 2014

Tropicana Corporation

Land Sale Recognition Delayed

By Adrian Ng | adrian.ng@kenanga.com.my, Sarah Lim | sarahlim@kenanga.com.my

MARKET PERFORM ↔

Price: RM1.23
Target Price: RM1.28 ↔

- Period** ■ 3Q14/9M14
- Actual vs. Expectations** ■ Tropicana Corporation's (TROP) reported 9M14 core earnings of RM126.8m which was below our, and consensus', expectations, at 54% and 52% full-year estimates, respectively. The lower-than-expected earnings were largely due to the delayed recognition of its disposal gains from Tropicana Aman land to Eco World Development (ECOWLD) which could be potentially pushed to 4Q14 or 1Q15.
- For 9M14, TROP registered total property sales of RM1.15b that only make up 58% of our, and management's, full-year sales target of RM2.0b. The slower sales was attributable to the weak sentiment on the overall property market, particularly running up to Budget-2015 announcement, coupled with management's decision to scale back its initial planned launches of c.RM3.0b to only RM1.14b.
- Dividends** ■ No dividend was announced as expected.
- Key Results Highlights** ■ **YoY**, 9M14 core earnings surged by 33% to RM126.8m despite a marginal decline in revenue (-2%). The surge in core earnings was driven by: (i) recognition of several land sale gains recognised amounting to RM63.9m, (ii) lower effective tax rate of 17.5% (-18.1ppt), (iii) lower finance cost on reclassification of interest expense, and (iv) full contribution from Tenaga Kimia which was acquired in May-13. Core earnings without land sales increased by 104% to RM78.9m.
- **QoQ**, 3Q14 core earnings saw a sharp decline of 67% to RM29.5m due to the lack of land sales recognition as compared to 2Q14. Its core earnings excluding land sales also decreased by 44% to RM25.5m mainly due to the increase in operating expenses (+9%) and also financing cost (+18%). The sharp increase in financing cost was due to additional loans drawn down for the acquisition of its Gelang Patah land while we believe that the higher operating cost could be due to higher sales and marketing expenses incurred in 3Q14. Its net gearing increased to 0.72x from 0.60x previously.
- Outlook** ■ Moving forward, we expect: (i) net gearing to continue to come down from current levels of 0.72x due to continuous de-gearing exercise, (ii) sales to be lower as management scaled back launches, (iii) potential earnings deferment risks as ECOWLD deal may take longer to complete implying recognition in FY15. (*Kindly refer overleaf for more details*).
- Change to Forecasts** ■ Maintain FY14E core earnings of RM233m but lowering FY15E core earnings by 7% to RM192m. (*Kindly refer overleaf for more details*).
- Its unbilled sales remained healthy at RM2.7b providing them at least 2 years earnings visibility
- Rating** ■ **Maintain MARKET PERFORM**
- Valuations** ■ We are keeping our MARKET PERFORM call on TROP with an unchanged Target Price of RM1.28 with a 67% discount to its FD RNAV RM3.89. The stock will be capped by its large risk exposure in Johor, larger higher-end high-rise components in their developments and also tougher times ahead moving into 2015 due to the implementation of GST and also tighter lending criteria imposed by banks. However, we think downside risks could be capped as the stock is already trading at very steep discount of 67% to its RNAV vs. our sector average of 41%.
- Risks to Our Call** ■ Execution risks (i.e. shortage of labour). Later-than-expected land sale recognition timeline.

Share Price Performance



KLCI	1,829.91
YTD KLCI chg	-2.0%
YTD stock price chg	0.8%

Stock Information

Bloomberg Ticker	TRCB MK Equity
Market Cap (RM m)	1,688.5
Issued shares	1,372.8
52-week range (H)	1.66
52-week range (L)	1.16
3-mth avg daily vol:	1,527,800
Free Float	42%
Beta	0.8

Major Shareholders

CHEE SING TAN	29.2%
ALIRAN FIRASAT SDN B	16.4%
IMPECCABLE ACE SDN B	12.4%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	1,476	1,976	1,851
EBIT	489	392	356
PBT	495	360	324
Net Profit	353	233	192
Core Net Profit (NP)	145	233	192
Consensus (CNP)	-	243	235
Earnings Revision	-	-	-7%
Core EPS (sen)	13.1	21.0	17.3
Core EPS growth (%)	146%	60%	-18%
NDPS (sen)	3.4	4.2	3.5
NTA/Share (RM)	2.25	2.68	2.83
PER (x)	9.4	5.9	7.1
Price/NTA (x)	0.5	0.4	0.4
Net Gearing (x)	0.55	0.40	0.29
Dividend Yield (%)	2.8%	3.4%	2.8%

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OTHER POINTS

De-gearing exercise to continue. Looking ahead, management remains focused on their de-gearing exercise in which they are still actively looking to dispose of their non-core assets i.e. malls and office towers to raise at least RM700-800m over the next 12 months to pare down its net gearing of 0.72x.

Weaker property sales ahead, and lowering FY15E core earnings by 7%. Apart from that, management has also revised down its sales target of RM2.0b to RM1.5b while scaling down its planned launches of RM3.0b to RM1.14b for FY14 due to the weak sentiment in the market attributable to the uncertainties caused by the implementation of GST and also tighter lending criteria imposed by the banks. Following this, management, scaled back launches due to the weak market sentiment ahead, while we had also slashed our FY14-15E sales estimates by 26%-3% to RM1.5b. Following the reduction in sales estimates, we are still maintaining our FY14E earnings of RM233m, but trimming down our FY15E earnings by 7% to RM192m. Its unbilled sales remained healthy at RM2.7b providing them at least two years earnings visibility. However, we also highlight that our FY14E earnings are heavily dependent on the realization of the land sale to ECOWLD.

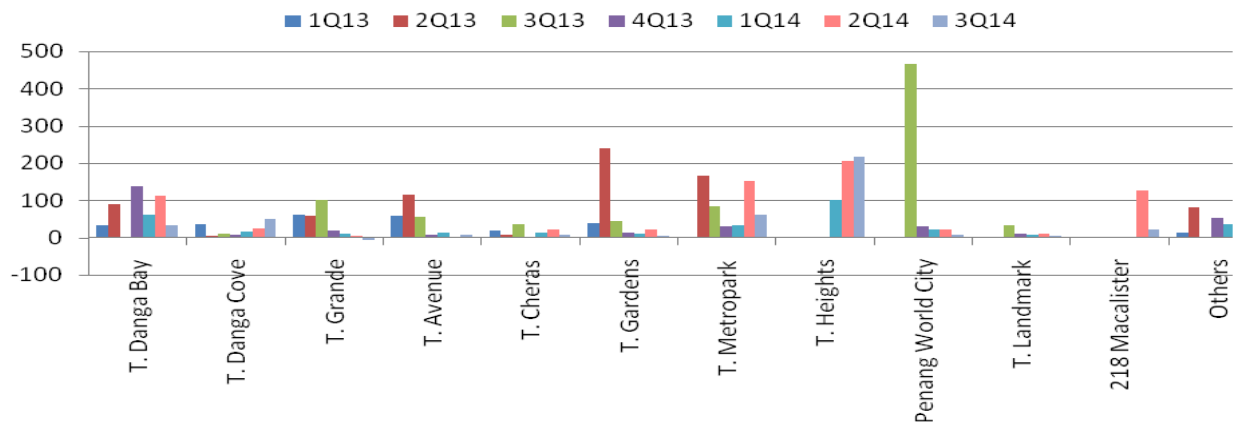
Potential earnings deferment in FY14E. There could be a potential earnings deferment risks for our FY14 earnings estimate of RM233m as the ECOWLD deal may take longer to complete, implying recognition in FY15, rather than our assumption that it will take place in 4Q14. If the deal is not concluded by year-end, it will drag down our FY14E core earnings further by 37%, while post adjusted FY15E core profit will be higher by 45%.

Result Highlight								
FYE' Dec (RM'm)	3Q14	2Q14	QoQ	3Q13	YoY	9M14	9M13	YoY
Revenue	353.1	355.9	-1%	363.4	-3%	1,008.1	1,030.8	-2%
Cost of Sales	(219.9)	(220.4)	0%	(233.3)	-6%	(623.6)	(652.3)	-4%
Gross Profit	133.1	135.5	-2%	130.2	2%	384.5	378.6	2%
Other Operating Revenue	15.6	60.7	-74%	9.0	73%	86.2	25.5	239%
Operating Expenses	(82.3)	(75.2)	9%	(66.6)	24%	(236.6)	(172.0)	38%
EBITDA	71.7	126.4	-43%	72.6	-1%	244.7	232.0	5%
Depreciation	(5.2)	(5.4)	-4%	(5.1)	3%	(16.1)	(14.7)	10%
EBIT	66.5	121.0	-45%	67.5	-2%	228.7	217.4	5%
Interest Expense	(18.4)	(15.6)	18%	(27.7)	-34%	(53.5)	(59.7)	-10%
Interest Income	2.4	2.1	13%	2.2	7%	6.7	5.2	28%
Associate profits	0.7	0.3	146%	0.3	140%	0.9	4.4	-79%
JCE profits	(0.2)	13.2	-101%	1.9	-110%	14.0	0.8	1629%
Pretax Income	50.9	121.0	-58%	44.3	15%	196.8	168.1	17%
Income Tax Expense	(13.4)	(15.9)	-16%	(19.7)	-32%	(34.4)	(59.8)	-43%
Net Profits	37.6	105.1	-64%	24.6	53%	162.4	108.3	50%
Minority Interests	(8.1)	(15.7)	-49%	(5.9)	36%	(35.6)	(12.8)	178%
PATAMI	29.5	89.5	-67%	18.7	58%	126.8	95.5	33%
FV Adjustments	0.0	0.0		0.0		0.0	12.1	
Core PATAMI	29.5	89.5	-67%	18.7	58%	126.8	84.0	51%
Gains on disposal of land / investment Prop	5.3	58.6		0.0		63.9	60.4	
Core PATAMI (w/o disposal gains)	25.5	45.5	-44%	18.7	37%	78.9	38.7	104%
Net gearing	0.72	0.60		0.64		0.72	0.64	
EBIT Margins	18.8%	34.0%		18.6%		22.7%	21.1%	
PBT Margins	14.4%	34.0%		12.2%		19.5%	16.3%	
Core PATAMI Margins	8.4%	25.1%		5.1%		12.6%	8.1%	
Effective Tax	26.2%	13.1%		44.4%		17.5%	35.6%	

Source: Company, Kenanga Research

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Sales Performance



Source: Company, Kenanga Research

RNAV

Projects	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm)	Est. Remaining Net Profit (RM'm)	WACC (%)	DCF Value (RM m)**
Central Region						
Tropicana Gardens	70%	7.0	2,043.0	173.4	11%	116.8
Tropicana Metropark	100%	18.0	6,335.0	768.3	11%	328.7
Tropicana Heights	100%	11.0	1,726.0	209.3	11%	118.1
The Residences	100%	4.0	1,150.0	139.5	11%	108.2
Tropicana Aman	100%	20.0	6,634.8	804.6	11%	320.4
Casa Damansara 3	100%	3.0	135.0	16.4	11%	13.3
Jln Bukit Bintang jv with Agile	30%	4.0	1,115.1	40.6	11%	31.5
Others	100%	4.0	430.0	52.1	11%	40.4
Southern Region						
Tropicana Danga Bay	60%	14.0	7,189.0	523.1	11%	260.9
Tropicana Danga Cove	50%	18.0	11,708.0	709.9	11%	303.8
Tropicana City Centre	100%	10.0	3,602.0	436.8	11%	257.3
Tropicana Danga Lagoon	100%	16.0	2,500.0	303.2	11%	145.9
TDB Hotel & Residences	60%	4.0	1,336.0	97.2	11%	75.4
Tropicana Gelang Patah	100%	12.0	6,440.0	781.0	11%	422.6
Senibong Waterfront	70%	12.0	3,670.0	311.6	11%	168.6
Northern Region						
Penang World City	55%	18.0	9,466.0	631.4	11%	270.2
Tropicana 218 Macalister	100%	4.0	314.0	38.1	11%	29.5
Unbilled Sales						
Tropicana Gardens	70%	5.0	443.0	37.6	11%	27.8
Tropicana Metropark	100%	4.0	245.0	29.7	11%	23.0
Tropicana Cheras	100%	1.0	33.0	4.0	11%	3.6
Tropicana Grande	100%	1.0	65.0	7.9	11%	7.1
Tropicana Avenue	100%	4.0	340.0	41.2	11%	32.0
Others	100%	1.0	56.0	6.8	11%	6.1
Tropicana Danga Bay	60%	5.0	463.0	33.7	11%	24.9
Tropicana Danga Cove	50%	1.0	37.0	2.2	11%	2.0
Penang World City	55%	5.0	473.0	31.5	11%	23.3
Tropicana Landmark	100%	1.0	28.0	3.4	11%	3.1
				Market Value		Surplus/Deficit
Other land banks	100%			141.8		0.0
Confirmed land sales	100%			1,089.5		355.3
Investment Properties	100%			1,233.4		0.0
Sub-Total						3,519.7
Shareholders fund as of Dec-13						2,570.0
RNAV						6,089.7
Dilution Impact						292.6
FD RNAV per Share						3.89
Diluted no. shares						1,641.5
Applied discount						67%
Target Price						1.28

Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	375.2	630.1	1475.5	1976.3	1851.4
EBITDA	118.0	263.4	511.5	413.2	377.0
Depreciation	-16.4	-17.3	-22.7	-20.8	-20.8
EBIT	101.6	246.1	488.8	392.4	356.2
Interest Expense	-11.4	-31.7	-77.9	-32.2	-32.0
Investing	5.3	4.2	9.1	0.0	0.0
Associate/JCE	6.3	5.5	83.7	0.0	0.0
Exceptionals/FV	0.0	0.0	0.0	0.0	0.0
PBT	96.5	219.9	494.6	360.1	324.2
Taxation	-14.6	-41.9	-125.3	-89.6	-80.6
Minority Interest	-7.6	-9.5	-16.1	-37.8	-51.8
Net Profit	74.3	168.6	353.2	232.8	191.7
Core net profit	57.0	59.0	145.3	232.8	191.7

Balance Sheet

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Fixed Assets	1702.1	3423.5	3244.4	3678.6	3657.8
Intangibles	4.8	16.6	80.4	80.4	80.4
Other FA	87.7	102.7	346.9	243.0	243.0
Inventories	19.8	20.3	67.1	85.9	74.8
Receivables	58.3	103.5	383.3	513.4	480.9
Other CA	544.7	638.0	806.4	1579.6	1507.9
Cash	120.1	213.7	497.2	683.4	952.0
Total Assets	2537.6	4518.4	5425.7	6864.2	6996.7
Payables	238.5	330.9	474.9	1410.5	1330.5
ST Borrowings	145.7	223.9	350.8	435.7	525.3
Other ST Liability	6.6	8.5	57.4	63.9	60.2
LT Borrowings	845.6	1642.1	1566.8	1462.5	1358.3
Other LT Liability	144.4	124.4	241.8	240.1	256.1
Minority Int.	118.0	127.6	163.8	201.6	253.4
Net Assets	1038.8	2061.1	2570.3	3049.9	3212.8
Share Capital	458.1	793.1	1107.3	1389.0	1389.0
Reserves	580.7	1268.0	1463.0	1660.8	1823.8
Shareholders Equity	1038.8	2061.1	2570.3	3049.9	3212.8

Cashflow Statement

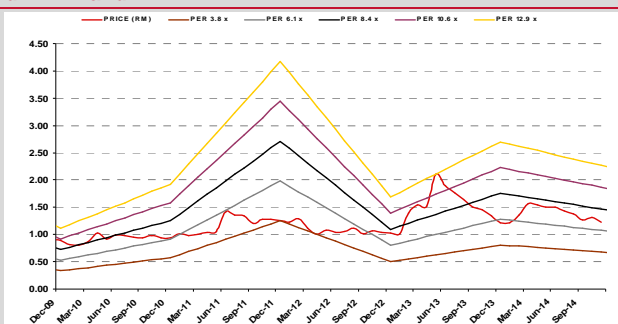
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Operating CF	-265.0	-18.3	838.4	371.3	460.2
Investing CF	-0.2	-821.4	-1872.7	-194.3	-561.8
Financing CF	421.7	698.5	1124.7	207.0	183.7
Net Change in Cash	156.6	-141.2	90.4	384.0	82.2
Free Cash Flow	-272.5	-737.6	-14.3	561.2	46.8

Source: Kenanga Research

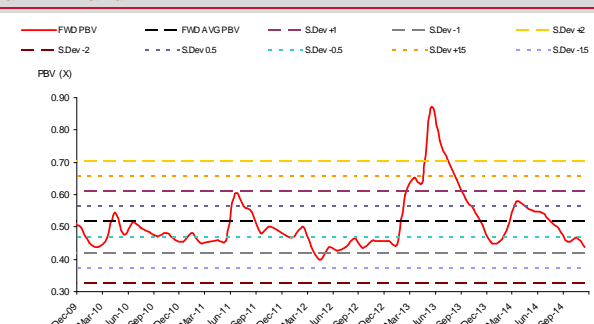
Financial Data & Ratios

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Growth (%)					
Revenue	28.4	67.9	134.2	33.9	-6.3
EBITDA	89.2	123.2	94.2	-19.2	-8.8
EBIT	112.6	142.2	98.6	-19.7	-9.2
Pre-tax Income	99.5	127.9	124.9	-27.2	-10.0
Core Net Income	50.0	3.5	146.3	60.2	-17.6
Profitability (%)					
EBITDA Margin	31.5	41.8	34.7	20.9	20.4
EBIT Margin	27.1	39.1	33.1	19.9	19.2
PBT Margin	25.7	34.9	33.5	18.2	17.5
Core Net Margin	15.2	9.4	9.8	11.8	10.4
Effective Tax Rate	-14.7	-19.0	-24.9	-24.9	-24.9
ROE	7.7	10.9	15.3	8.3	6.1
ROA	3.6	4.8	7.1	3.8	2.8
DuPont Analysis					
Net margin (%)	19.8	26.8	23.9	11.8	10.4
Assets Turnover (x)	0.2	0.2	0.3	0.3	0.3
Leverage Factor (x)	2.1	2.3	2.1	2.2	2.2
ROE (%)	7.7	10.9	15.3	8.3	6.1
Leverage					
Debt/Asset (x)	0.14	0.39	0.41	0.35	0.28
Debt/Equity (x)	0.95	0.91	0.75	0.62	0.59
Net Debt/(Cash)	(0.0)	0.9	1.7	1.4	1.2
Net Debt/Equity (x)	0.74	0.77	0.55	0.40	0.29
Valuations					
Core EPS (sen)	5.1	5.3	13.1	21.0	17.3
Dil. EPS	5.9	13.3	27.8	14.7	10.8
Core EPS (sen)	5.1	5.3	13.1	21.0	17.3
Dil. Core EPS	4.5	4.6	11.4	14.7	10.8
NDPS (sen)	0.9	4.8	3.4	4.2	3.5
NTA/share (RM)	0.93	1.85	2.25	2.68	2.83
Core PER (x)	23.9	23.1	9.4	5.9	7.1
Dil. Core PER	27.4	26.5	10.7	8.4	11.3
Net Div. Yield (%)	0.8%	3.9%	2.8%	3.4%	2.8%
PNTA (x)	1.3	0.7	0.5	0.4	0.4
EV/EBITDA (x)	18.9	11.4	5.4	6.2	6.1

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (27/11/14)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY13/14	FY14/15	FY15/16	(%)	(%)	(x)	FY13/14	FY14/15	FY15/16	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
UEM Sunrise*	1.79	8,122	17.7	15.4	20.8	2.2%	10.2%	1.3	459.1	528.8	389.9	15.2%	-26.3%	1.93	MARKET PERFORM
IOI Properties*	2.47	8000	16.7	15.8	13.5	3.2%	4.3%	0.7	479.2	506.5	593.3	5.7%	17.1%	3.10	OUTPERFORM
SP Setia*	3.25	8,250	19.1	24.6	15.8	3.1%	8.7%	1.3	417.9	325.3	504.6	-22.2%	55.1%	3.30	MARKET PERFORM
Sunway Berhad	3.43	5899	12.2	10.9	10.3	2.9%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.87	OUTPERFORM
IJM Land*	3.38	5,269	15.7	15.7	15.0	1.8%	17.7%	1.5	335.2	336.0	352.1	0.2%	4.8%	3.55	ACCEPT OFFER
Mah Sing Group	2.30	3,394	12.1	10.1	8.8	3.9%	17.6%	1.5	280.6	334.6	385.3	19.2%	15.2%	3.05	OUTPERFORM
UOA Development*	2.15	3,077	8.9	11.5	10.4	6.0%	16.0%	1.1	344.6	266.8	295.7	-22.6%	10.8%	2.00	MARKET PERFORM
Tropicana	1.23	1,689	9.4	5.8	7.1	3.4%	15.3%	0.5	145.3	232.8	191.7	60.2%	-17.7%	1.28	MARKET PERFORM
Matrix Concepts	2.91	1,330	8.6	7.9	6.9	5.7%	29.8%	2.0	152.9	167.2	190.2	9.4%	13.8%	3.48	OUTPERFORM
Crescendo*	2.75	626	11.3	7.5	7.4	5.5%	18.4%	0.9	84.2	84.4	93.2	0.3%	10.5%	2.95	OUTPERFORM
Hua Yang	2.17	573	7.0	5.6	5.2	6.1%	22.8%	1.2	82.2	102.9	109.6	25.2%	6.5%	2.60	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.82	4,066	111.6	n.a.	n.a.	n.a.	0.7%	0.8	36.4	n.a.	n.a.	n.a.	n.a.	0.93	NEUTRAL
IGB CORPORATION BHD	2.88	3,845	19.2	17.5	16.0	2.4%	5.3%	0.9	200.5	220.3	240.3	9.9%	9.1%	4.10	NEUTRAL
YNH PROPERTY BHD	2.05	845	17.9	11.4	9.8	2.4%	5.6%	1.0	47.2	74.2	86.6	57.2%	16.7%	n.a.	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.87	721	32.2	n.a.	36.3	n.a.	3.2%	0.7	22.4	n.a.	19.9	n.a.	n.a.	n.a.	BUY
GLOMAC BHD	1.12	814	7.8	7.8	7.5	4.7%	12.0%	0.9	104.7	103.9	109.0	-0.8%	4.9%	1.13	SELL
KSL HOLDINGS BHD	4.52	1,755	8.8	5.8	6.5	5.1%	14.9%	1.2	199.1	302.9	271.8	52.1%	-10.3%	n.a.	BUY
PARAMOUNT CORP BHD	1.49	629	8.3	8.8	8.8	6.0%	9.1%	0.7	76.2	71.8	71.8	-5.8%	0.0%	1.71	BUY
IVORY PROPERTIES GROUP BHD	0.50	221	9.7	n.a.	n.a.	n.a.	1.5%	0.5	22.6	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	2.16	891	8.6	9.1	7.5	4.3%	30.3%	2.5	103.5	98.2	118.8	-5.1%	21.0%	2.30	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research